

# *News Release*

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## **MTF Statement: Computer Tax Strikes at the Heart of the Massachusetts Economy**

The tax on computer and software services included in the transportation finance bill strikes at the heart of the Massachusetts economy, costing countless jobs for years to come. Virtually every industry in the state will be affected by this tax—ranging from retail to life sciences to health care to finance—which the Foundation estimates will cost the state’s employers an additional \$500 million in annual sales taxes.

By extending the 6.25 percent sales tax to a wide swath of technological services, Massachusetts will lay claim to the most onerous computer and software services tax in the nation. As the attached chart shows, only four other states tax the array of services that Massachusetts would now tax, and all four do so at a lower rate. In fact, many of our competitor states are moving in the opposite direction—at least fifteen states offer tax incentives related to software, computer services, or data centers because the jobs are highly mobile and can be performed remotely.

The tax takes clear aim at the state’s innovation economy, which is the essence of the state’s competitive edge and at the core of its economic future. Many of the key investments in computers and software that help to incubate groundbreaking discoveries and cutting-edge ideas will now be subject to the sales tax.

The tax is so broad that it will affect virtually all industries. Employers in the health care, life sciences, biotechnology, finance, manufacturing, hospitality, restaurant, retail, grocery, and other industries will all pay more to improve productivity, generate growth, be more competitive and, most importantly, create jobs.

For example, retailers rely on vendors to design and integrate systems to track sales and manage inventory, health care insurers and providers manage costs with electronic health data systems, biopharmaceutical companies use complex computer systems to analyze data, manufacturers rely on computer aided design for production, and other businesses increase productivity by modifying standardized computer programs to meet their specific needs.

Based on the Foundation’s analysis, this tax will cost employers an additional \$500 million in annual sales taxes. Furthermore, there will be enormous indirect costs because the tax is ambiguous and open to broad interpretation, leading to a long list of regulations, directives, appeals, and legal cases as sellers and purchasers alike try to determine whether a transaction falls within an abstract and ever changing set of services.

Before implementing the tax, the Foundation urges the Legislature to pursue legislative alternatives to constrain the computer and software services tax in a way that minimizes potential damage while raising the \$161 million that is anticipated in the transportation finance bill. Only a change in legislative language will adequately address this problem.

## State Taxation of Computer and Software Services

No Sales Tax	Modifications Exempt <sup>1</sup>	Modifications Taxable; Other Services Exempt	Computer Services Taxable, Reduced Rate	Computer Services Taxable			
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Alabama* Arizona Arkansas California Colorado Florida Georgia* Idaho Illinois Indiana Iowa* Kansas Kentucky Louisiana Maine* Maryland Michigan Minnesota*	Missouri (electronic) Nevada New Jersey New York N. Carolina* N. Dakota Ohio Oklahoma Pennsylvania R.I.* Texas Utah Vermont* Virginia* Washington Wisconsin*						
<p>*Indicates state offers a tax incentive related to software, computer services, or data centers <i>other than</i> R&amp;D credits; does not constitute a comprehensive list of such incentives.</p> <p>1. Some states require that the charges for modifications or other computer services be separately stated in order to be exempt.</p> <p>Sources: CCH 2013 State Tax Handbook, individual state statutes and regulations.</p>							

